

Message Text

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ACTION AF-08

INFO OCT-01 EUR-12 ISO-00 XMB-02 AID-05 TRSE-00 OMB-01

CIAE-00 INR-07 NSAE-00 EB-07 SS-15 SP-02 FRB-03

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R 121000Z AUG 76

FM AMEMBASSY LIBREVILLE

TO SECSTATE WASHDC 8177

INFO AMEMBASSY PARIS

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DEPT PASS EXIMBANK

E.O. 11652: N/A

TAGS: EGEN GB

SUBJECT: GABONESE SEEKING FRESH LOANS

REF: LIBREVILLE 1096 (NOTAL)

SUMMARY: GABONESE MINISTRY OF FINANCE IS SEEKING \$150 MILLION IN EXTERNAL FINANCING FOR 1976 AND 1977 AND HAS ASKED LOCAL BRANCH OF BANQUE DE PARIS ET PAYS-BAS (PARIBAS) HANDLE SYNDICATION. LOCAL BANKERS BELIEVE MONEY OBTAINABLE ON EUROMARKET BUT THAT GOG MAY HAVE TO PAY ABOVE PREFERENTIAL RATE IT HAS THUS FAR ENJOYED. ALL BANKS AGREE GOG FINANCES AND DEBT MANAGEMENT REMAIN BASICALLY SOUND, THOUGH DISORGANIZED BORROWING PRACTICES HAVE UNNECESSARILY HARMED GOG'S CREDIT RATING. END SUMMARY.

1. BY LETTER DATED JULY 20, GOG MINFINANCE OKINDA ASKED LOCAL BRANCH OF PARIBAS TO ARRANGE \$150 MILLION IN NEW LOANS FOR GABONESE DEVELOPMENT PROGRAM, OF WHICH APPROXIMATELY \$65 MILLION SOUGHT IN 1976 AND BALANCE IN 1977. LETTER SAYS FUNDS DESIGNED TO "EASE BURDEN OF FINANCING TRANSGABON RAILWAY" AND TO COVER COSTS OF

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VARIOUS PROJECTS UNDERTAKEN IN PREPARATION FOR 1977 OAU

SUMMIT MEETING ("HOTELS, MARKETS, LIBREVILLE STREETS, ETC.").

2. MINISTERIAL LETTER ENCLOSED NOTE ANALYZING GOG FINANCIAL POSITION AS OF JULY 1 (COPIES BEING POUCHED AF/C FOR DEPARTMENT AND EXIMBANK) IN FAIRLY POSITIVE TERMS. ACCORDING TO NOTE (WHICH WAS PREPARED BY PARIBAS), BASIC STRENGTH OF GABONESE ECONOMY MAKES POSSIBLE FINANCING OF MOST DEVELOPMENT EXPENDITURES OUT OF GOG REVENUES, SO THAT EXTERNAL FINANCING NEEDED ONLY TO CLOSE GAP RESULTING FROM EXCEPTIONAL EXPENSES OF THIS YEAR AND NEXT (LARGELY RELATED TO RAILWAY AND OAU MEETING). NOTE FURTHER OBSERVES THAT DEBT PAYMENTS SCHEDULED IN 1977 (ABOUT \$152 MILLION) SUBSTANTIALLY EXCEED \$85 MILLION SOUGHT IN 1977 BORROWINGS AND CITES THIS AS FURTHER EVIDENCE OF GOG CREDITWORTHINESS. (NOTE GIVES TOTAL EXTERNAL DEBT AS 183 BILLION CFA, OR \$735 MILLION, WHICH ACCORDS CLOSELY WITH PREVIOUS IMF FINDINGS.)

3. MINFINANCE NOTE PROVIDES PROJECTIONS FOR GOVERNMENT REVENUES AND FIGURES THROUGH 1975 FOR BALANCE OF PAYMENTS, BUT MOST INTERESTING ANNEX IS ONE WHICH CONTAINS DEBT FIGURES. ACCORDING TO NOTE, TOTAL DEBT CITED ABOVE SPLITS ROUGHLY INTO ONE-THIRD SUPPLIER CREDITS AND PROMISSORY NOTES INVOLVING PUBLIC WORKS FIRMS (AVERAGE MATURITY THREE AND ONE-HALF YEARS, THOUGH MANY NOTES ARE AS SHORT AS ONE YEAR) AND TWO-THIRDS IN LOANS WITH AVERAGE MATURITY OF SIX YEARS. JUST UNDER HALF OF TOTAL DEBT IS DOLLAR-DENOMINATED, , AND JUST OVER ON-QUARTER REPRESENTS EUROCURRENCY LOANS FOR WHICH DETAILED LIST IS PROVIDED (\$180 MILLION IN EURODOLLARS AND \$8 MILLION IN DEUTSCHMARKS). BECAUSE OF DIFFERING MATURITIES, REIMBURSEMENT CHARGES PROJECTED FOR 1977 DIVIDE ALMOST EQUALLY BETWEEN TWO CATEGORIES OF BORROWINGS, AND REPRESENT 29 0/0 OF OUTSTANDING SUPPLIER CREDITS AND NOTES AND 16 0/0 OF OUTSTANDING LOANS.

4. PARIBAS, WHICH WORKED CLOSELY WITH MINFINANCE IN PREPARING REQUEST FOR LOANS, IS CONFIDENT THAT FINANCING CAN BE FOUND IN EUROCURRENCY MARKET AND HAS ALREADY BEGUN PUTTING SYNDICATE TOGETHER FOR \$65 MILLION SOUGHT THIS YEAR. OTHER BANKS AGREE ON AVAILABILITY OF FUNDS, BUT SUSPECT THAT GOG LIMITED OFFICIAL USE

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MAY FIRST HAVE TO DEFINE ITS DEVELOPMENT PROJECTS MORE PRECISELY AND EVEN THEN WILL BE FORCED TO ACCEPT HIGHER INTEREST RATE THAN HAS BEEN OBTAINED ON LOANS TO DATE. THUS FAR, GOG HAS SUCCESSFULLY INSISTED ON PAYING NOT MORE THAN ONE AND SEVEN-EIGHTHS PERCENT OVER LONDON INTERBANK RATE (OR SLIDING RATE GOING TO TWO PERCENT ON LAST THREE YEARS OF FIVE-YEAR LOAN), AND HAS BEEN WILLING PAY EXTRA COMMISSIONS OR MANAGEMENT FEES TO OBTAIN AGREEMENT OF LENDERS TO THIS

PREFERENTIAL RATE. CITIBANK OFFICIALS HAVE HEARD FROM LONDON OFFICES, HOWEVER, THAT GABON LIKELY BE OFFERED NEW LOANS ONLY AT TWO AND ONE-QUARTER PERCENT OVER LONDON INTERBANK, WHICH IS RATE PAID BY SUCH WELL-REGARDED BORROWERS AS IVORY COAST AND CAMEROON.

5. ALL LOCAL BANKS AGREE THAT GOG FINANCES AND DEBT MANAGEMENT REMAIN BASICALLY SOUND, AND THAT GABON REMAINS GOOD CREDIT RISK EVEN IF NOT CANDIDATE FOR PREFERENTIAL RATE THUS FAR ACCORDED. THEY FEEL THAT GOG HAS DONE UNNECESSARY DAMAGE TO ITS CREDIT RATING BY DISORGANIZED BORROWING, SUCH THAT OFFICIALS RESPONSIBLE FOR DEBT MANAGEMENT OFTEN DO NOT KNOW WHAT NOTES HAVE BEEN ISSUED. SLOPPY PRACTICES IN THIS REGARD ALSO LEAD TO EXCESSIVE NUMBER OF LATE PAYMENTS (AND SUBSTANTIAL EXTRA INTEREST CHARGES), FURTHER DAMAGING GABONESE REPUTATION EVEN THOUGH COUNTRY'S BASIC CREDITWORTHINESS NOT INVOLVED.

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6. EVEN LEAST ENTHUSIASTIC OF LOCAL BANKERS PROFESS THEMSELVES ENCOURAGED BY RECENT EVIDENCES OF GOG FINANCIAL RESTRAINT SUCH AS THOSE CITED REFTEL AND LIBREVILLE 1107 (NOTAL). BONGO TOLD VISITING PARIBAS PRESIDENT LAST WEEK THAT GOG IS AWARE OF NEED TO RESTORE ITS CREDIT RATING AND WILL

THEREFORE EXERCISE DUE PRUDENCE IN ITS FUTURE BORROWINGS,
AND ALLEGED THAT NO NEW PROJECTS HAVE BEEN UNDERTAKEN IN PAST
SIX MONTHS.

7. COMMENT: ACCORDING TO NON-PARIBAS BANKERS, LARGE PART OF
GAP FOR WHICH NEW BORROWINGS SOUGHT RESULTS FROM COST OVERRUNS
ON PRESIDENTIAL PALACE/EXECUTIVE OFFICE COMPLEX, ON WHICH
ESTIMATES NOW RUN AS HIGH AS \$200 MILLION. PALACE COMPLEX,
WHICH IS BEING PUSHED TO COMPLETION IN ANTICIPATION OF 1977
OAU SUMMIT, IS REPORTEDLY RECEIVING TOP PRIORITY FOR FUNDING,
SO THAT NEW LOANS WOULD IN FACT BE USED FOR OTHER ONGOING
PROJECTS FROM WHICH FUNDS HAVE IN EFFECT BEEN BORROWED TO
FINANCE PALACE. THUS, EVEN BANKERS WHO TAKE DISAPPROVING VIEW
OF EXPENDITURES ON PALACE CONCLUDE THAT NEW LOANS ARE
NECESSARY IN ORDER TO KEEP OTHER, MORE PRODUCTIVE PROJECTS
GOING -- AND THESE SAME BANKERS ADD FINAL JUDGMENT THAT GOG
FINANCIAL POSITION IS SUFFICIENTLY SOLID TO PERMIT LUXURY OF
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PALACE COMPLEX WITHOUT DAMAGING BASIC CREDITWORTHINESS.
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